

BRITISH COLUMBIA

# Workers' Compensation Board Superannuation Plan

## 2004 Annual Report



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**WorkSafe™**

WORKERS' COMPENSATION BOARD OF BC



# **Workers' Compensation Board Superannuation Plan**

# 2004

## **Annual Report**

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**April 1, 2003 to March 31, 2004**

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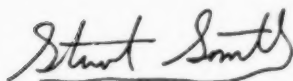
# Message from the Trustees

We are pleased to present our Annual Report for the fiscal year ending March 31, 2004. We welcome all new members to the Workers' Compensation Board Superannuation Plan (the plan).

The plan is financially sound, and at March 31, 2004 had assets totaling \$667 million. The most important issue for any pension plan is long-term results, and we're committed to achieving consistent and steady performance over the long term.

Every three years, an independent actuary assesses the financial health of the plan and the adequacy of the contribution rates. The most recent actuarial valuation, as at March 31, 2003, disclosed a net actuarial surplus of \$84 million, a decline of \$24 million from the \$108 million surplus at March 31, 2000. Since the previous actuarial valuation at March 31, 2000, a 50% contribution holiday for plan members continued until December 31, 2002, and employer contributions were fully suspended from January 2001 until December 31, 2002. Member and employer contributions resumed January 1, 2003. Your plan continues to be financially sound despite market conditions in the past three years, and despite less than full member and employer contributions.

We've collaborated with the British Columbia Pension Corporation to provide you with prompt, friendly and efficient service, and we promise to continue in our efforts to make your retirement process easy. We're committed to ensuring that your pension plan is well managed, and we look forward to continuing to work on your behalf to fulfill the pension promise.



Stuart Smith



Sid Fattedad

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## **Trustees as at March 31, 2004**

### **Plan Member Representative**

Stuart Smith

### **Workers' Compensation Board Representative**

Sid Fattedad

# Message from the Chief Investment Officer

In fiscal 2003/04 the Workers' Compensation Board Superannuation Plan's Basic Account earned a 20.7% return and the Inflation Adjustment Account earned 20.9%. While we are pleased with the strong returns, the results largely reflect a rebound from the disappointing returns experienced during the previous three years. Our expectation is that, in a low interest rate environment, future returns will be much more modest and will likely average between 7.0% and 8.0% per annum.

Economic growth and corporate profits picked up significantly in fiscal 2003/04 and generally exceeded investors' expectations. In addition, ten-year interest rates fell from 5.1% to 4.3%. This market environment, combined with a rebound in investor confidence, meant that the plan enjoyed relatively good returns from both its equity and fixed income investments. The Canadian stock returns ranged between 37.5% and 38.7%. The fixed income returns ranged from 3.0% for money market to 14.3% for real return bonds.

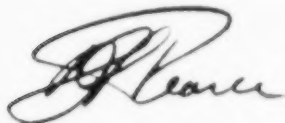
The Canadian dollar rose nearly 12% relative to the U.S. dollar over the year ending March 31, 2004. This reduced returns on the plan's U.S. investments. However, the British Columbia Investment Management Corporation (bcIMC) employed some currency hedging which helped to mitigate the impact of the dollar's appreciation. This is the reason some U.S. equity portfolios exceeded their market benchmarks by a wide margin.

International equity markets were also very strong in fiscal 2003/04. The plan's returns from non-North American stocks ranged from 35.2% to 49.3%. Some of the best performers in 2003/04 were companies that had weaker balance sheets. This reflected an improvement in the global economy and the fact that markets were recovering from a period of acute risk aversion.

In fiscal 2003/04, the plan realized a 7.4% return on its real estate investments. While the results were lower than many asset classes, the returns reflect expanding development projects. Overall, stock market volatility in recent years has led many investors to want to increase their real estate investments in order to generate more stable returns. Unfortunately, the strong demand by both domestic and foreign investors has made it a challenging environment for bcIMC to increase the plan's real estate holdings.

A key element of managing the plan's investments is ensuring that companies act in an ethical and appropriate manner, and that they are being managed in the best long-term interests of shareholders. In this regard, bcIMC is an active participant in corporate governance and in voting proxies. Last year, bcIMC became a full member of the Canadian Coalition of Good Governance.

I am proud of our energetic and service-oriented team. We appreciate the confidence of the Workers' Compensation Board Superannuation Plan trustees and look forward to serving the plan and its membership in the years to come.

A handwritten signature in black ink, appearing to read "D Pearce". The signature is fluid and cursive, with a large initial "D" and a stylized "P".

Doug Pearce  
Chief Investment Officer/Chief Executive Officer  
British Columbia Investment Management Corporation

# Plan Governance

The **Workers' Compensation Board (WCB)** is responsible for the management of the pension plan, including the investment of the assets and administration of the plan. The WCB appoints plan trustees. Currently there are two trustees: one representing the WCB as the employer and one representing plan members.

The **British Columbia Pension Corporation** provides benefit administration services to the pension plan as an agent of the Workers' Compensation Board. This is where members are enrolled, contributions are collected, benefits are processed, and pension payments are issued.

The **British Columbia Investment Management Corporation (bcIMC)** provides investment management services as an agent of the Workers' Compensation Board. The bcIMC is one of the largest institutional investors in the country, offering a wide range of fund management services and options.

## Communications

Communicating with plan members is a priority of the trustees. The Pension Corporation continues to work on new communications materials to ensure all plan information is easily understood, accurate and up-to-date. The corporation produces the annual *Members' Benefit Statement*, forms, bulletins and *Pensionfacts*—a series of plan member fact sheets.

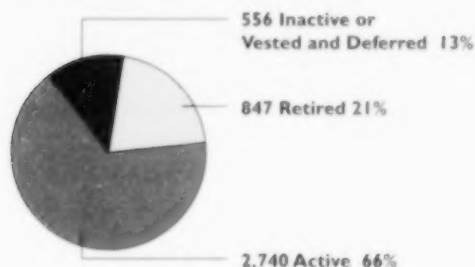
# Plan Membership

## Members

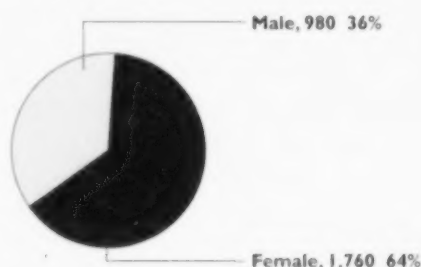
There are four types of members in the plan.

- **Active**—those who are currently contributing to, or are receiving benefits from an approved salary continuance plan or are on a leave of absence.
- **Inactive**—those who are no longer employed but who have contribution balances on record and are not eligible for a pension in the future.
- **Vested and Deferred**—those who are no longer employed and are eligible for a future pension.
- **Retired**—those who are receiving a pension.

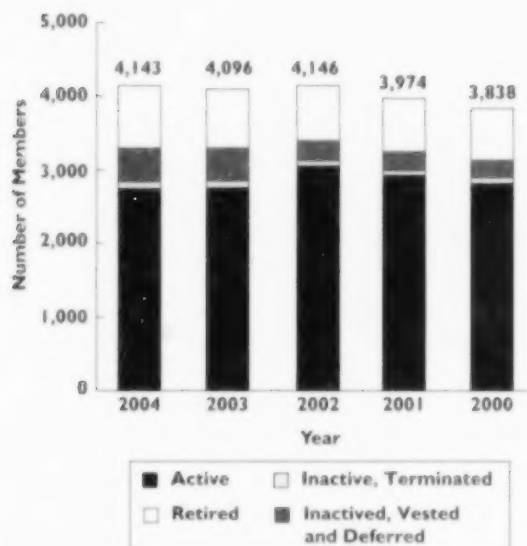
**Membership Profile**  
as at March 31, 2004



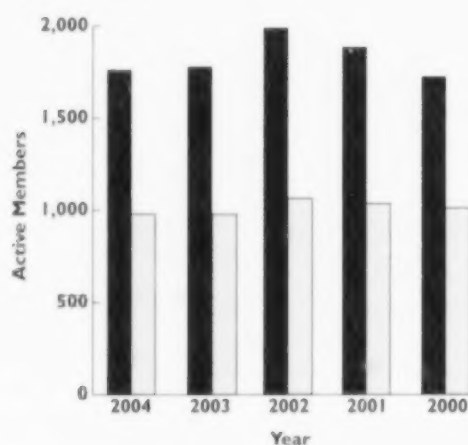
**Active Member Profile**  
as at March 31, 2004



**Number of Members**  
as at March 31



**Active Members**  
as at March 31



# Contributions

Members of the plan contribute to the plan through automatic deductions from their salary. Both plan members and employers pay contributions to fund future pension benefits. Once a member terminates employment, retires, or reaches 35 years of pensionable service, they no longer contribute. The contribution rates shown below are applied to pensionable salaries. The current rates are as follows:

## Plan Member

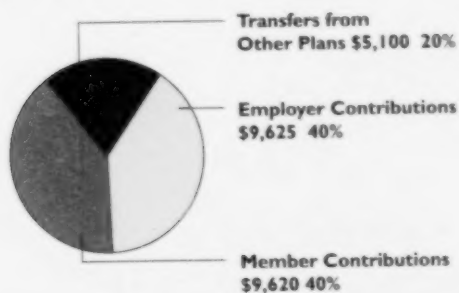
- 5.5% of pensionable salary up to and including the YMPE\*, and
- 7.0% of pensionable salary for salary greater than the YMPE\*.

## Employer

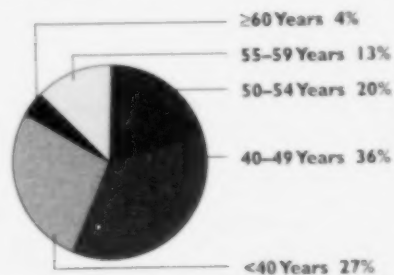
- 5.5% of pensionable salary up to and including the YMPE\*, and
- 7.0% of pensionable salary for salary greater than the YMPE\*.

(\* Year's Maximum Pensionable Earnings 2004—\$40,500; 2003—\$39,900)

**2003/04 Contribution Revenue**  
\$ Thousands



**Age Profile of Active Contributors**  
as at March 31, 2004



**Contributions**  
year ended March 31

Member    Employer



9.6

9.6

2004

7.0

3.5

2003

5.8

1.2

2002

5.5

4.4

2001

5.1

6.4

2000

\$ Millions

# Plan Benefits

The Workers' Compensation Board Superannuation Plan (the plan) is a contributory defined benefit pension plan. Benefits are based on the member's highest five years of salary, length of service and age at retirement. The plan provides entitlement to a pension benefit after two years of contributory service. The plan also provides survivor and disability benefits. Inflation benefits are not guaranteed, and the ability to continue to provide these benefits is monitored on an ongoing basis.

## Pensions

The number of retired members continues to grow with the aging of the membership. The number of retired members receiving a pension increased 6.4% from 2003 to 2004 as at March 31.

Pensions are paid at the end of each month, beginning with whichever of the following comes latest:

- the month following the month in which the plan member becomes eligible;
- the month following the month in which the plan member receives the final salary payment; or
- the month in which the Pension Corporation receives the member's application.

The plan pays a full month's pension for the month in which a retired member dies.

The table below shows the average asset value ("present value") of pensions granted during 2003/2004. The value represents approximately how much it would cost to purchase an average basic pension provided under the plan.

### Average Value of Regular Pensions New Starts, April 1, 2003 to March 31, 2004

Subdivided by years of service

| Years of Service*       | Number of Pensions Granted | Average Annual Salary Base | Average Annual Pension | Average Present Value of Pensions | Total Present Value of Pensions (\$ Millions) |
|-------------------------|----------------------------|----------------------------|------------------------|-----------------------------------|-----------------------------------------------|
| <10 yrs                 | 13                         | \$51,000                   | \$ 4,000               | \$ 67,000                         | \$ 0.9                                        |
| 10-14                   | 12                         | 53,000                     | 11,000                 | 165,000                           | 2.0                                           |
| 15-19                   | 12                         | 63,000                     | 16,000                 | 254,000                           | 3.0                                           |
| 20-24                   | 11                         | 56,000                     | 19,000                 | 311,000                           | 3.4                                           |
| 25-29                   | 7                          | 67,000                     | 30,000                 | 466,000                           | 3.3                                           |
| 30-34                   | 4                          | 63,000                     | 31,000                 | 528,000                           | 2.1                                           |
| ≥35                     | 1                          | 47,000                     | 23,000                 | 432,000                           | 0.4                                           |
| <b>Total</b>            | <b>60</b>                  | <b>n/a</b>                 | <b>n/a</b>             | <b>n/a</b>                        | <b>\$15.1</b>                                 |
| Average of All Pensions | n/a                        | \$57,000                   | \$16,000               | \$252,000                         | n/a                                           |

\* Years of service includes service transferred from other plans.

## Plan Benefits

### Pensions 2000–2004

|         | New Starts<br>during Year | Pension<br>Terminations | In Force at<br>End of Year | \$ Millions               |                                  | Total |
|---------|---------------------------|-------------------------|----------------------------|---------------------------|----------------------------------|-------|
|         |                           |                         |                            | Basic<br>Pensions<br>Paid | Inflation<br>Supplements<br>Paid |       |
| 2003/04 | 73                        | 22                      | 847                        | 11.9                      | 2.5                              | 14.4  |
| 2002/03 | 63                        | 12                      | 796                        | 10.6                      | 2.3                              | 12.9  |
| 2001/02 | 37                        | 16                      | 745                        | 10.1                      | 2.1                              | 12.2  |
| 2000/01 | 36                        | 15                      | 724                        | 9.5                       | 1.9                              | 11.4  |
| 1999/00 | 89                        | 12                      | 703                        | 8.4                       | 1.6                              | 10.0  |

### Pension New Starts, by Type 2000–2004

|         | Regular* | Death* | Disability† | Deferred | Total |
|---------|----------|--------|-------------|----------|-------|
| 2003/04 | 60       | —      | 5           | 8        | 73    |
| 2002/03 | 54       | —      | 1           | 8        | 63    |
| 2001/02 | 28       | —      | 5           | 4        | 37    |
| 2000/01 | 27       | —      | 4           | 5        | 36    |
| 1999/00 | 76       | 4      | 5           | 4        | 89    |

\* Pension new starts do not include any pension continued to a beneficiary upon the death of a retired member.

† Includes members on long-term disability who became eligible for a regular pension.

### 2003/04 Regular Pension New Starts, Age at Retirement

Subdivided by years of service and age at retirement

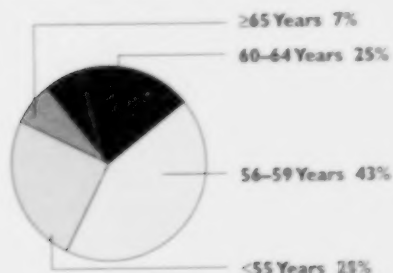
| Years of<br>Service | ≤55       | 56–59     | 60–64     | ≥65      | Total     |
|---------------------|-----------|-----------|-----------|----------|-----------|
| <10 yrs             | 2         | 6         | 3         | 2        | 13        |
| 10–14               | 2         | 5         | 3         | 2        | 12        |
| 15–19               | 5         | 2         | 3         | —        | 10        |
| 20–24               | 3         | 5         | 3         | —        | 11        |
| 25–29               | 3         | 3         | 3         | —        | 9         |
| 30–34               | —         | 4         | —         | —        | 4         |
| ≥35                 | —         | 1         | —         | —        | 1         |
| <b>Total</b>        | <b>15</b> | <b>26</b> | <b>15</b> | <b>4</b> | <b>60</b> |

Average age 59

## Plan Benefits

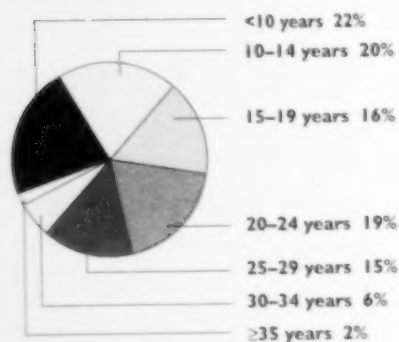
### Percentage of 2003/04 Regular Pension New Starts by Age

Normal Retirement Age 65



### Percentage of 2003/04 Regular Pension New Starts by Years of Service

Normal Retirement Age 65



## Termination and Refund Benefits

A terminating member may be eligible for one or more of the following benefits:

- a refund of contributions with interest;
- a transfer of the commuted value of the pension benefit to a locked-in registered retirement savings plan or a registered pension plan; or
- a deferred pension.

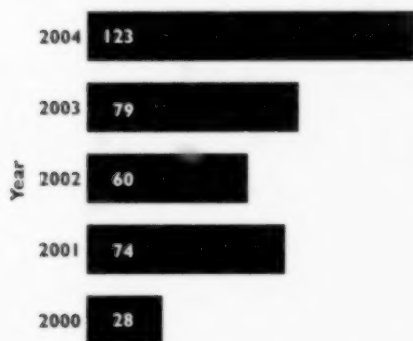
After January 1, 1998 a terminating member with two or more years of service can claim vested, locked-in benefits in the form of a transfer of the commuted value or a deferred pension.

The number of termination and refund benefits paid varies from year to year. In 2003/04 the total value of termination and refund benefits decreased as a result of a significant decrease in the average value of benefits paid.

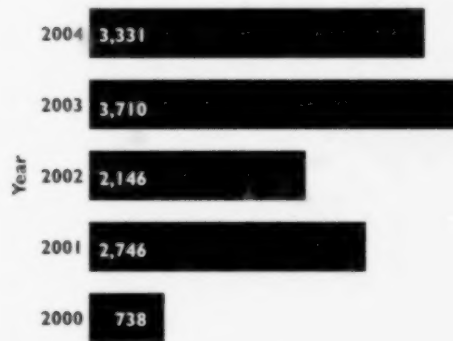
If a non-vested member leaves the plan and takes a refund of contributions, the refund includes interest. Interest compounds annually and is credited to the member's contribution balance. The balance, including interest, is included in the annual *Member's Benefit Statement*.

## Plan Benefits

**Number of Termination and Refund Benefits Paid**  
year ended March 31



**Value of Termination and Refund Benefits Paid**  
year ended March 31



Number Paid

\$ Thousands

Termination benefits paid include refunds of contributions and commuted-value payments; deferred pensions are included in pension statistics.

## Transferring Service

Transfer agreements allow pension plan members to carry pension rights from one plan to another. Members may carry their years of pensionable service and contributions to a new plan at a different place of employment, if the new plan has an agreement with the Workers' Compensation Board Superannuation Plan. Employers that allow pension plan members to transfer their pension rights to other pension plans are called "reciprocal employers". In order to transfer service, the member must have left their contributions on deposit, or reinstated service. Service may not be transferred on a one-to-one basis, but depends on differences in plan benefits. Members of the plan who have made contributions to another pension plan may want to inquire about transfer agreements.

Transfer agreements are in place between the Workers' Compensation Board Superannuation Plan and the four large BC public sector plans (College, Municipal, Public Service and Teachers'), and other plans that have signed agreements. In 2003/04, there were 65 reciprocal transfers-in from other pension plans and 30 transfers-out. The transfers-in totalled \$5.1 million; transfers-out totalled \$2.0 million.

## Plan Benefits

### Purchase of Additional Service

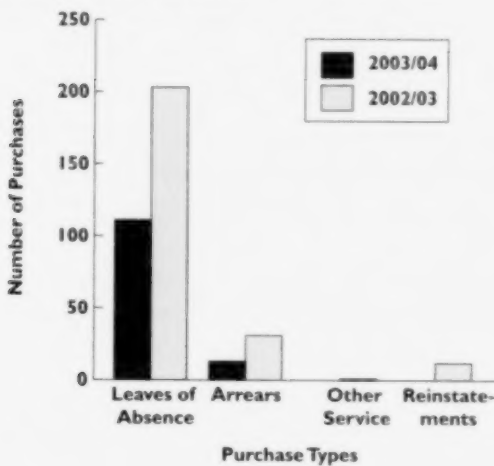
Members of the plan may be able to increase their future pension benefits by purchasing periods of past service. Purchasing service means paying for periods of employment that have not already been counted as service with the pension plan. This service may include:

- Leaves of Absence (maternity, parental, or other leave);
- Arrears Contributions (not enrolled but eligible to buy back missed contributions);
- Other Service (employment service before becoming a regular contributor); or
- Reinstatements (contributions previously refunded from the plan).

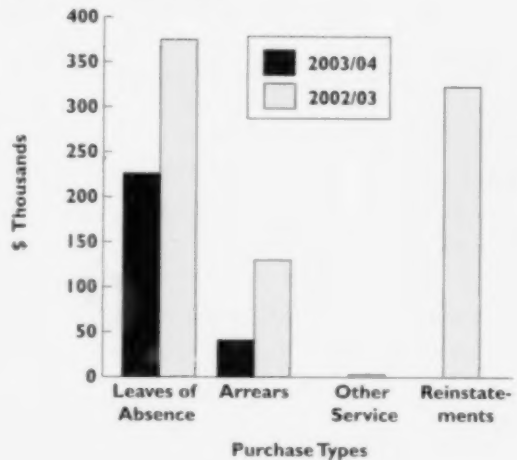
In 2003/04 the number of purchases of additional service decreased 50% from 2002/03. The value of the purchases decreased 68%.

### Member and Employer Purchases of Additional Service

Number of Purchases



Value of Purchases



# Investments

One of the major fiduciary roles of the trustees is the responsibility for overseeing the investment of approximately \$667 million in assets for the long-term benefit of the plan and its members. The most important issue for any pension plan is long-term results, and the goal is to achieve consistent and steady performance over the longer term based on a disciplined approach and prudent decision making.

The trustees approve the long-term asset mix policy for the investment assets and oversee the management of those assets through the plan's investment management agent, the British Columbia Investment Management Corporation.

Diversification of investments is a key principle in the approved asset policy. Investments are held in a range of asset types (e.g., bonds, equities, real estate), industry sectors, and global markets.

There was a significant improvement in this year's investment results. Fixed income (bonds and mortgages) and real estate continued to provide solid returns. In addition, after three disappointing years, stock markets experienced a significant rebound in 2003/04. For example, Canadian stocks, as measured by the Toronto Stock Exchange Composite index, were up 37.7%

Overall for the year, the Basic Account recorded a 20.7% annual return on its investment portfolio. On a five-year basis the return for the plan's Basic Account was 5.5%.

The trustees are pleased with the strong performance of the plan during the year but, given the somewhat normalized market environment, expect more modest average annual returns of 7 to 8% in the future.

The trustees will continue in their approach to optimize returns, based on following sound money management principles and strategic asset allocation.

## Investments

### Approved Investment Asset Mix

The plan holds a diversified portfolio of debt and equity investments. Diversification of assets and investment styles is an important component of investment strategy for the fund because it decreases investment risk.

The trustees approved the asset mix range in the accompanying table. Targets for strategic and short-term allocation of assets must fall within the approved asset mix. For purposes of the asset mix, short-term includes Canadian government bonds with one- to five-year terms and money market securities.

### Basic Investment Asset Mix and Performance

March 31, 2004

| Asset Class            | Approved Range (%) | Actual % of Assets | Rate of Return | Performance Benchmark* |
|------------------------|--------------------|--------------------|----------------|------------------------|
| <b>Debt</b>            | <b>30-50</b>       |                    |                |                        |
| Short-term             | 0-10               | 4.7                | 6.0%           | 5.6%                   |
| Mortgages              | 0-10               | 4.0                | 9.5%           | 8.5%                   |
| Bonds                  | 15-35              | 25.9               | 11.1%          | 10.9%                  |
| Real Return Bonds      | 0-10               | 5.2                | 13.3%          | 15.3%                  |
| <b>Equity</b>          | <b>50-70</b>       |                    |                |                        |
| Canadian Equities      | 8-22               | 18.2               | 38.0%          | 37.7%                  |
| U.S. Equities          | 8-20               | 15.6               | 29.6%          | 23.2%                  |
| International Equities | 7-20               | 14.5               | 39.4%          | 40.8%                  |
| Real Estate            | 5-15               | 9.6                | 7.4%           | 4.7%                   |
| Private Placements     | 0-10               | 2.3                | **             | **                     |

\* Benchmarks are standards to compare against actual investment returns.

\*\* Annual rate of return not available.

## Investments

### Investment Portfolio

Investments are stated at fair market value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly, based on the value of the underlying assets. Income from investments represents pooled investment portfolio income attributable to the plan as a unit holder.

#### Investments Held as at March 31, 2004

|                                    | Market Value<br>(\$ Thousands) | Asset Mix<br>Market Value (%) |
|------------------------------------|--------------------------------|-------------------------------|
| Money Market                       | \$ 11,460                      | 2                             |
| Bonds                              |                                |                               |
| Government                         | 115,492                        | 17                            |
| Corporate                          | 29,300                         | 5                             |
| Long-term                          | 27,558                         | 4                             |
| Short-term                         | 20,106                         | 3                             |
| Canadian Equities                  |                                |                               |
| Indexed                            | 82,264                         | 12                            |
| Actively Managed                   | 38,823                         | 6                             |
| U.S. Equities                      |                                |                               |
| Indexed                            | 79,160                         | 12                            |
| Actively Managed                   | 24,501                         | 4                             |
| International Equities             |                                |                               |
| Asia                               | 16,239                         | 2                             |
| Europe                             | 29,144                         | 4                             |
| Europe, Australia and the Far East | 51,190                         | 8                             |
| Foreign Currency                   | 1,202                          | —                             |
| Real Estate                        | 63,659                         | 10                            |
| Mortgages                          | 26,752                         | 4                             |
| Private Placements                 | 13,794                         | 2                             |
| <b>Total Pooled Portfolios</b>     | <b>\$630,644</b>               | <b>95%</b>                    |
| Canadian Real Return Bonds         | 34,543                         | 5                             |
| <b>Total Investments</b>           | <b>\$665,187</b>               | <b>100%</b>                   |
| 2003 Comparison                    | \$ 546,865                     |                               |

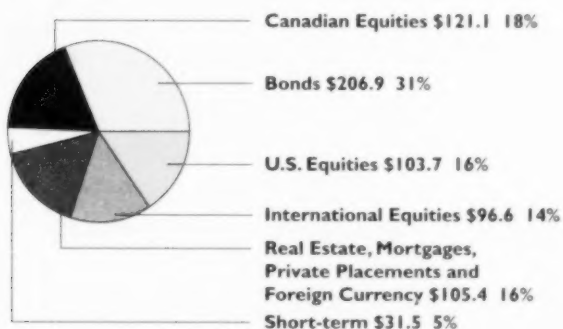
For further information on the investment portfolio, visit the British Columbia Investment Management Corporation website at [www.bcimc.com](http://www.bcimc.com).

## Investments

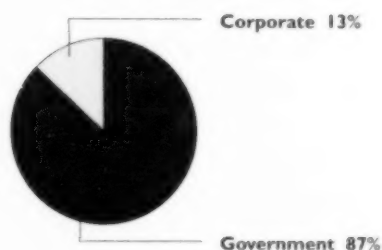
### Investments Held as at March 31, 2004

#### Investments Holdings (Market Value)

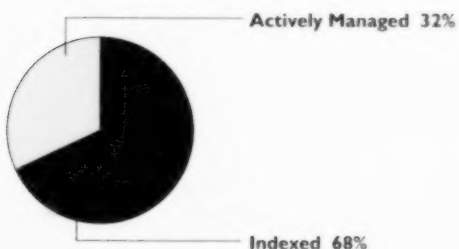
\$ Millions



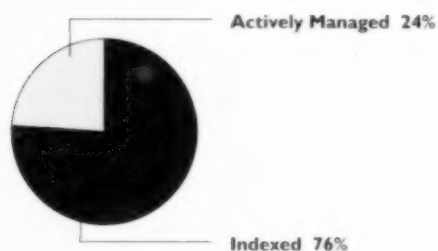
#### Bonds (Market Value)



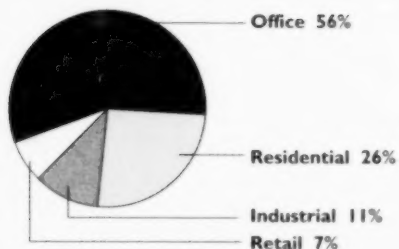
#### Canadian Equities (Market Value)



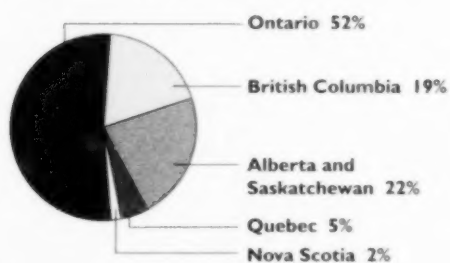
#### U.S. Equities (Market Value)



#### Real Estate, by Type



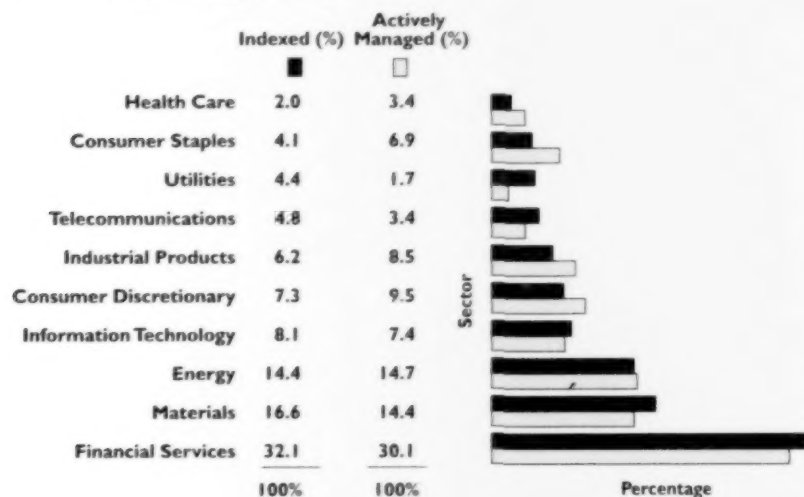
#### Real Estate, by Location



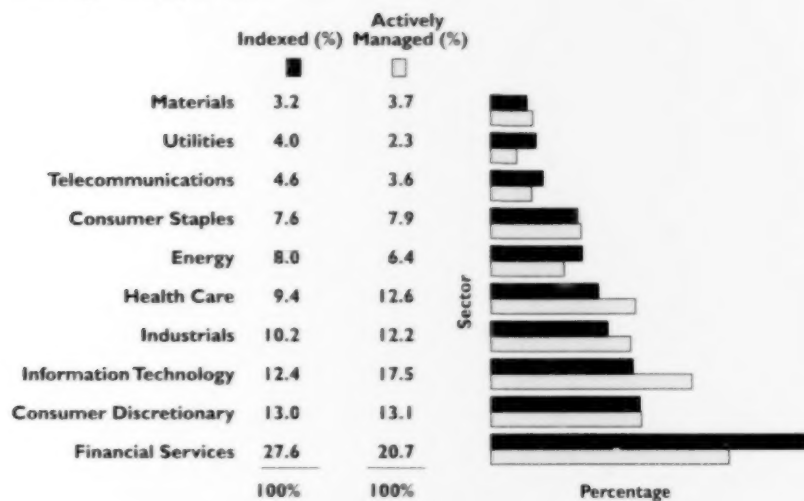
## Investments

### Investments Held as at March 31, 2004

#### Canadian Equities, by Sector



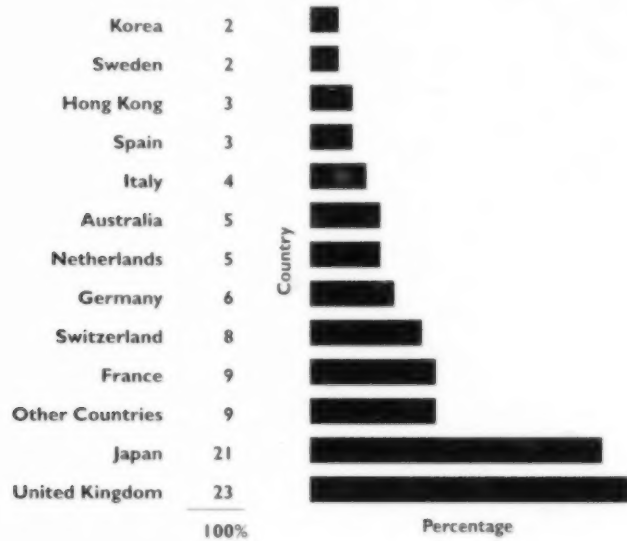
#### U.S. Equities, by Sector



## Investments

### Investments Held as at March 31, 2004

#### International Equities, by Country



## Investments

### Investments Held as at March 31, 2004

#### Top Ten Holdings

##### Canadian Equities

| Company                            | Market Value<br>(\$ Thousands) | % of<br>Total |
|------------------------------------|--------------------------------|---------------|
| Bank of Nova Scotia                | \$ 5,276                       | 4.3%          |
| Royal Bank of Canada               | 5,067                          | 4.2%          |
| Toronto Dominion Bank              | 4,427                          | 3.7%          |
| Nortel Networks                    | 3,880                          | 3.2%          |
| Manulife Financial                 | 3,872                          | 3.2%          |
| Encana Corporation                 | 3,791                          | 3.1%          |
| Canadian Imperial Bank of Commerce | 3,416                          | 2.8%          |
| Bank of Montreal                   | 3,367                          | 2.8%          |
| Alcan Inc                          | 3,151                          | 2.6%          |
| BCE Inc                            | 2,767                          | 2.3%          |
| <b>Total Top Ten</b>               | <b>\$ 39,014</b>               | <b>32.2%</b>  |
| <b>Total Canadian Equities</b>     | <b>\$121,086</b>               |               |

##### U.S. Equities

| Company                    | Market Value<br>(\$ Thousands) | % of<br>Total |
|----------------------------|--------------------------------|---------------|
| Citigroup Inc              | \$ 2,006                       | 1.9%          |
| Exxon Mobil Corp           | 1,526                          | 1.5%          |
| Amern Intl Group           | 1,286                          | 1.2%          |
| Pfizer Inc                 | 1,013                          | 1.0%          |
| General Electric           | 875                            | 0.8%          |
| Microsoft Corp             | 834                            | 0.8%          |
| Bank of America            | 763                            | 0.7%          |
| Wal-Mart Stores            | 612                            | 0.6%          |
| Hewlett Packard            | 589                            | 0.6%          |
| Verizon Communication      | 587                            | 0.6%          |
| <b>Total Top Ten</b>       | <b>\$ 10,091</b>               | <b>9.7%</b>   |
| <b>Total U.S. Equities</b> | <b>\$103,661</b>               |               |

##### International Equities

| Company                             | Market Value<br>(\$ Thousands) | % of<br>Total |
|-------------------------------------|--------------------------------|---------------|
| Vodafone Group                      | \$ 2,281                       | 2.4%          |
| Total Fina Elf                      | 1,735                          | 1.8%          |
| HSBC Holdings                       | 1,652                          | 1.7%          |
| BP                                  | 1,581                          | 1.6%          |
| Glaxosmithkline                     | 1,500                          | 1.6%          |
| Nestle SA                           | 1,445                          | 1.5%          |
| Novartis AG                         | 1,443                          | 1.5%          |
| Astrazeneca                         | 1,199                          | 1.2%          |
| ENI                                 | 1,142                          | 1.2%          |
| UBS AG                              | 1,142                          | 1.2%          |
| <b>Total Top Ten</b>                | <b>\$15,120</b>                | <b>15.7%</b>  |
| <b>Total International Equities</b> | <b>\$96,573</b>                |               |

## Investments

### Market Value Rates of Return for the Year Ended March 31, 2004

|                                          | Basic<br>Account (%) | Inflation<br>Adjustment<br>Account (%) | Basic Account<br>Performance<br>Benchmarks (%) |                                      |
|------------------------------------------|----------------------|----------------------------------------|------------------------------------------------|--------------------------------------|
| Five-year Average Rates                  |                      |                                        |                                                |                                      |
| 2004                                     | 5.5                  | 6.1                                    | 5.4                                            |                                      |
| 2003 Comparison                          | 2.2                  | 2.7                                    | 1.9                                            |                                      |
| Annual Rates                             |                      |                                        |                                                |                                      |
| 2004                                     | 20.7                 | 20.9                                   | 23.0                                           |                                      |
| 2003 Comparison                          | -9.4                 | -7.8                                   | -10.2                                          |                                      |
| 2004 Annual Rates by Investment Category |                      |                                        | 2004 Performance Benchmark* Indices            |                                      |
| Short-term                               |                      |                                        |                                                |                                      |
| Money Market                             | 3.0                  | 3.0                                    | 3.0                                            | SCI 91-Day Treasury Bills            |
| Bonds                                    | 7.8                  | 7.8                                    | 7.8                                            | SCI All Government Short-term        |
| Bonds                                    |                      |                                        |                                                |                                      |
| Government                               | 10.5                 | 10.5                                   | 10.1                                           | SCI All Government Universe          |
| Corporate                                | 11.9                 | 11.9                                   | 12.7                                           | SCI All Corporate Universe           |
| Long-term                                | 13.0                 | 13.0                                   | 12.7                                           | SCI All Government Long-term         |
| Real Return                              | 13.3                 | 14.3                                   | 15.3                                           | SCI Real Bond                        |
| Canadian Equities                        |                      |                                        |                                                |                                      |
| Actively Managed                         | 38.2                 | 38.2                                   | 37.7                                           | S&P/TSX                              |
| Indexed                                  | 37.5                 | 37.5                                   | 37.7                                           | S&P/TSX                              |
| U.S. Equities                            |                      |                                        |                                                |                                      |
| Actively Managed                         | 23.5                 | 23.5                                   | 21.6                                           | R 1000                               |
| Indexed                                  | 20.5                 | 20.5                                   | 20.5                                           | S&P 500                              |
| U.S. Value                               | 36.1                 | 36.1                                   | 28.6                                           | S&P Value                            |
| U.S. Enhanced                            | 21.3                 | 21.3                                   | 21.6                                           | R 1000                               |
| International Equities                   |                      |                                        |                                                |                                      |
| Asia                                     | 49.3                 | 49.3                                   | 47.9                                           | MSCI Pacific Net                     |
| Europe                                   | 35.2                 | 35.2                                   | 37.6                                           | MSCI Europe Net                      |
| Europe, Australia and the Far East       | 38.9                 | 38.9                                   | 40.8                                           | MSCI Europe, Australia, Far East Net |
| Real Estate                              | 7.4                  | 7.4                                    | 4.7                                            | CPI + 4%                             |
| Mortgages                                |                      |                                        |                                                |                                      |
| Fixed-term                               | 10.0                 | 10.0                                   | 9.4                                            | SCI Short-term Bonds + 1%            |
| Construction                             | 6.4                  | 6.4                                    | 5.4                                            | SCI One-year Bill + 1%               |
| Specialty                                | 10.9                 | 10.9                                   | 6.9                                            | SCI One-year Bill + 2.5%             |
| Private Placements                       | **                   | **                                     | **                                             | NB Small Capital (weighted) + 4.5%   |

\* Benchmarks are standards to compare against actual investment returns.

\*\* Annual rate of return not available.

#### Performance Benchmark Indices Abbreviations

|         |   |                                                    |
|---------|---|----------------------------------------------------|
| CPI     | = | Consumer Price Index                               |
| MSCI    | = | Morgan Stanley Capital International               |
| NB      | = | Nesbitt Burns                                      |
| R       | = | Russell                                            |
| SCI     | = | Scotia Capital Inc.                                |
| S&P     | = | Standard & Poor's                                  |
| S&P/TSX | = | Standard & Poor's/Toronto Stock Exchange Composite |

(Source of annual rates: British Columbia Investment Management Corporation)

# Financial Health

Active plan members and the employer both contribute to the plan. Every three years, an independent actuary assesses the adequacy of the contribution rates for funding the pension plan. The latest valuation examined the plan as at March 31, 2003, and disclosed an actuarial surplus of \$84 million. The next valuation will be as at March 31, 2006.

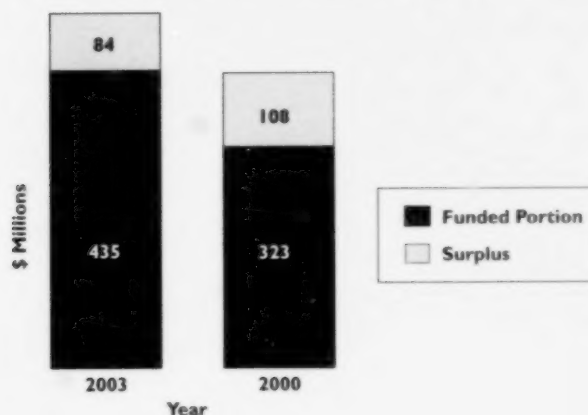
## Latest Actuarial Valuation as at March 31, 2003

\$ Millions

|                        | Basic Pension Benefits |      |                                                                    |
|------------------------|------------------------|------|--------------------------------------------------------------------|
|                        | 2003                   | 2000 |                                                                    |
| Actuarial Net Assets   | 519                    | 431  | See Note 7 to the Financial Statements for additional explanation. |
| Actuarial Liabilities  | 435                    | 323  |                                                                    |
| Net Actuarial Surplus* | 84                     | 108  |                                                                    |

\* After including the \$1 million of future costs for benefits in excess of the *Income Tax Act* limits, the surplus reduces to \$83 million (\$107 – 2000).

## Funding of the Total Basic Benefit Liability

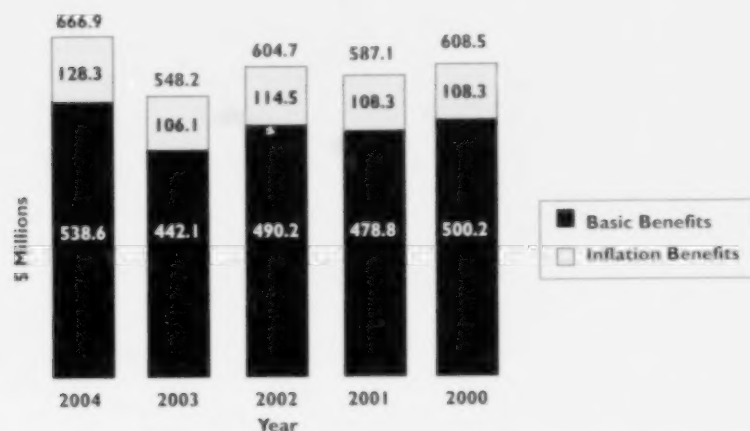


# Five-year Financial Summary

\$ Thousands

| For the year ended March 31                                   | 2004           | 2003             | 2002             | 2001             | 2000             |
|---------------------------------------------------------------|----------------|------------------|------------------|------------------|------------------|
| <b>Increase (Decrease) in Assets</b>                          |                |                  |                  |                  |                  |
| Investment Income (Loss)                                      | 115,505        | (53,812)         | 24,528           | (16,550)         | 94,061           |
| Contributions                                                 |                |                  |                  |                  |                  |
| Employer                                                      | 9,625          | 3,527            | 1,155            | 4,422            | 6,432            |
| Members                                                       | 9,620          | 7,009            | 5,846            | 5,538            | 5,157            |
| Transfers from Other Plans                                    | 5,100          | 5,693            | 2,048            | 684              | 27               |
| <b>Total Increase (Decrease) in Assets</b>                    | <b>139,850</b> | <b>(37,583)</b>  | <b>33,577</b>    | <b>(5,906)</b>   | <b>105,677</b>   |
| <b>Decrease in Assets</b>                                     |                |                  |                  |                  |                  |
| Pension Benefits                                              | 14,364         | 12,922           | 12,182           | 11,402           | 10,043           |
| Termination and Refund Benefits                               | 3,331          | 3,710            | 2,146            | 2,746            | 738              |
| Transfers to Other Plans                                      | 1,965          | 1,120            | 520              | 187              | 55               |
| Investment and Administration Costs                           | 1,444          | 1,176            | 1,163            | 1,131            | 958              |
| <b>Total Decrease in Assets</b>                               | <b>21,104</b>  | <b>18,928</b>    | <b>16,011</b>    | <b>15,466</b>    | <b>11,794</b>    |
| <b>Increase (Decrease) in Net Assets</b>                      | <b>118,746</b> | <b>(56,511)</b>  | <b>17,566</b>    | <b>(21,372)</b>  | <b>93,883</b>    |
| <b>Net Assets Available for Benefits at Beginning of Year</b> | <b>548,152</b> | <b>604,663</b>   | <b>587,097</b>   | <b>608,469</b>   | <b>514,586</b>   |
| <b>Net Assets Available for Benefits at End of Year</b>       | <b>666,898</b> | <b>\$548,152</b> | <b>\$604,663</b> | <b>\$587,097</b> | <b>\$608,469</b> |

**Net Assets Available for Benefits**  
as at March 31



# Financial Health

Active plan members and the employer both contribute to the plan. Every three years, an independent actuary assesses the adequacy of the contribution rates for funding the pension plan. The latest valuation examined the plan as at March 31, 2003, and disclosed an actuarial surplus of \$84 million. The next valuation will be as at March 31, 2006.

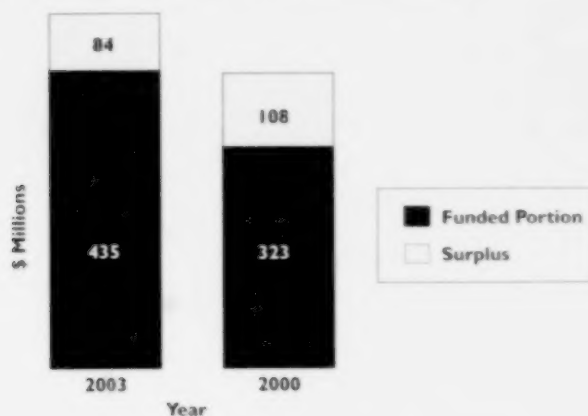
## Latest Actuarial Valuation as at March 31, 2003

\$ Millions

|                        | Basic Pension Benefits |      |                                                                    |
|------------------------|------------------------|------|--------------------------------------------------------------------|
|                        | 2003                   | 2000 |                                                                    |
| Actuarial Net Assets   | 519                    | 431  | See Note 7 to the Financial Statements for additional explanation. |
| Actuarial Liabilities  | 435                    | 323  |                                                                    |
| Net Actuarial Surplus* | 84                     | 108  |                                                                    |

\* After including the \$1 million of future costs for benefits in excess of the *Income Tax Act* limits, the surplus reduces to \$83 million (\$107 - 2000).

Funding of the Total Basic Benefit Liability

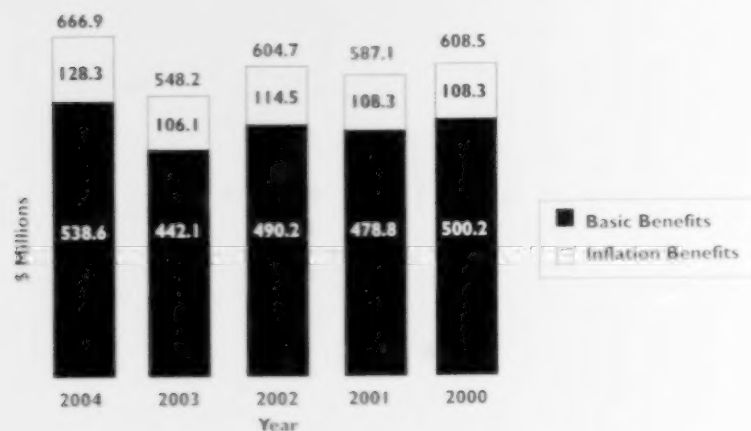


# Five-year Financial Summary

\$ Thousands

| For the year ended March 31                            | 2004           | 2003            | 2002          | 2001            | 2000           |
|--------------------------------------------------------|----------------|-----------------|---------------|-----------------|----------------|
| <b>Increase (Decrease) in Assets</b>                   |                |                 |               |                 |                |
| Investment Income (Loss)                               | 115,505        | (53,812)        | 24,528        | (16,550)        | 94,061         |
| Contributions                                          |                |                 |               |                 |                |
| Employer                                               | 9,625          | 3,527           | 1,155         | 4,422           | 6,432          |
| Members                                                | 9,620          | 7,009           | 5,846         | 5,538           | 5,157          |
| Transfers from Other Plans                             | 5,100          | 5,693           | 2,048         | 684             | 27             |
| <b>Total Increase (Decrease) in Assets</b>             | <b>139,850</b> | <b>(37,583)</b> | <b>33,577</b> | <b>(5,906)</b>  | <b>105,677</b> |
| <b>Decrease in Assets</b>                              |                |                 |               |                 |                |
| Pension Benefits                                       | 14,364         | 12,922          | 12,182        | 11,402          | 10,043         |
| Termination and Refund Benefits                        | 3,331          | 3,710           | 2,146         | 2,746           | 738            |
| Transfers to Other Plans                               | 1,965          | 1,120           | 520           | 187             | 55             |
| Investment and Administration Costs                    | 1,444          | 1,176           | 1,163         | 1,131           | 958            |
| <b>Total Decrease in Assets</b>                        | <b>21,104</b>  | <b>18,928</b>   | <b>16,011</b> | <b>15,466</b>   | <b>11,794</b>  |
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| Net Assets Available for Benefits at Beginning of Year | 548,152        | 604,663         | 587,097       | 608,469         | 514,586        |
| Net Assets Available for Benefits at End of Year       | 666,898        | \$548,152       | \$604,663     | \$587,097       | \$608,469      |

**Net Assets Available for Benefits**  
as at March 31



# Financial Statements

## PENSION CORPORATION

### Executive Offices

Mailing Address:  
PO Box 9460  
Stn Prov Govt  
Victoria BC  
V8W 9V8

Location:  
2995 Jutland Road  
Victoria BC  
V8T 5J9

Phone:  
250-387-8201  
1-800-663-8823  
Fax:  
250-387-4199

### WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN

#### ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Workers' Compensation Board Superannuation Plan (Plan) were prepared by the British Columbia Pension Corporation (Pension Corporation), the administrative agent for the Plan. The Pension Corporation prepares the financial statements in accordance with generally accepted accounting principles and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Workers' Compensation Board Superannuation Plan Annual Report conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Pension Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the Plan. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the Plan. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditors' Report attached to these financial statements.



SHELDON SCHWARTZ, C.F.A.  
Chief Financial Officer  
British Columbia Pension Corporation



SANDRA LENZ, C.A.  
Director, Finance  
British Columbia Pension Corporation

July 16, 2004

## Financial Statements



KPMG LLP  
Chartered Accountants

St. Andrew's Square II  
800 - 730 View Street  
Victoria BC V8W 3Y7

Telephone (250) 480-3500  
Telefax (250) 480-3539  
www.kpmg.ca

### AUDITORS' REPORT

To the Members of the Workers' Compensation Board Superannuation Plan

We have audited the statement of net assets available for benefits of the Workers' Compensation Board Superannuation Plan as at March 31, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at March 31, 2004 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'.

Chartered Accountants

Victoria, Canada

July 16, 2004



KPMG LLP, a Canadian limited liability partnership, is the Canadian member firm of KPMG International, a Swiss cooperative.

## Financial Statements

### WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS (\$ Thousands)

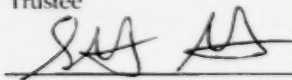
| As at March 31                           | 2004              | 2003              |
|------------------------------------------|-------------------|-------------------|
| <b>ASSETS</b>                            |                   |                   |
| Investments (Note 3)                     | \$ 665,187        | \$ 546,865        |
| Receivables                              |                   |                   |
| Due from sale of investments             | 247               | 15,005            |
| Members' contributions                   | 833               | 655               |
| Employer's contributions                 | 876               | 680               |
| Accrued investment income                | 379               | 229               |
|                                          | <u>2,335</u>      | <u>16,569</u>     |
| Cash                                     | -                 | 21                |
| <b>Total Assets</b>                      | <b>667,522</b>    | <b>563,455</b>    |
| <b>LIABILITIES</b>                       |                   |                   |
| Accounts payable and accrued expenses    | 440               | 1,060             |
| Payable for purchase of investments      | 184               | 14,243            |
| <b>Total Liabilities</b>                 | <b>624</b>        | <b>15,303</b>     |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b> | <b>\$ 666,898</b> | <b>\$ 548,152</b> |

All accompanying notes are an integral part of these financial statements including:

- Actuarial Valuation of the Basic Account (Note 7)
- Commitments (Note 10)



Sid Fattedad  
Workers' Compensation Board of British Columbia  
Trustee



Stuart Smith  
Workers' Compensation Board of British Columbia  
Trustee

# Financial Statements

## WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS (\$ Thousands)

| For the year ended March 31                  | Basic<br>Account | Inflation<br>Adjustment<br>Account | Supplemental<br>Benefits<br>Account | Totals<br>2004 | 2003        |
|----------------------------------------------|------------------|------------------------------------|-------------------------------------|----------------|-------------|
| <b>INCREASE (DECREASE) IN ASSETS</b>         |                  |                                    |                                     |                |             |
| Investment income (loss) (Note 4)            | \$ 92,785        | \$ 22,720                          | \$ -                                | \$ 115,505     | \$ (53,812) |
| Contributions (Note 5)                       |                  |                                    |                                     |                |             |
| Members'                                     | 8,011            | 1,605                              | 4                                   | 9,620          | 7,009       |
| Employer                                     | 7,963            | 1,604                              | 58                                  | 9,625          | 3,527       |
|                                              | 15,974           | 3,209                              | 62                                  | 19,245         | 10,536      |
| Transfers from other plans                   | 3,896            | 1,204                              | -                                   | 5,100          | 5,693       |
| Total Increase (Decrease) in Assets          | 112,655          | 27,133                             | 62                                  | 139,850        | (37,583)    |
| <b>DECREASE IN ASSETS</b>                    |                  |                                    |                                     |                |             |
| Pension benefits                             |                  |                                    |                                     |                |             |
| Contributory                                 | 11,801           | -                                  | 57                                  | 11,858         | 10,611      |
| Indexing supplements                         | 2,501            | -                                  | 5                                   | 2,506          | 2,311       |
|                                              | 14,302           | -                                  | 62                                  | 14,364         | 12,922      |
| Termination and refund benefits              | 2,170            | 1,161                              | -                                   | 3,331          | 3,710       |
| Transfers to other plans                     | 1,463            | 502                                | -                                   | 1,965          | 1,120       |
| Investment and Administration costs (Note 8) | 1,266            | 178                                | -                                   | 1,444          | 1,176       |
| Total Decrease in Assets                     | 19,201           | 1,841                              | 62                                  | 21,104         | 18,928      |
| <b>INCREASE (DECREASE) IN NET ASSETS</b>     |                  |                                    |                                     |                |             |
| <b>BEFORE TRANSFERS</b>                      | 93,454           | 25,292                             | -                                   | 118,746        | (56,511)    |
| Account transfers (Note 6)                   | 3,026            | (3,026)                            | -                                   | -              | -           |
| <b>INCREASE (DECREASE) IN NET ASSETS</b>     | 96,480           | 22,366                             | -                                   | 118,746        | (56,511)    |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b>     |                  |                                    |                                     |                |             |
| <b>AT BEGINNING OF YEAR</b>                  | 442,080          | 106,072                            | -                                   | 548,152        | 604,663     |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b>     |                  |                                    |                                     |                |             |
| <b>AT END OF YEAR</b>                        | \$ 538,560       | \$ 128,338                         | \$ -                                | \$ 666,898     | \$ 548,152  |

Supplemental Benefits Account (Note 9)

## Financial Statements

### WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

---

#### 1. DESCRIPTION OF THE WCB SUPERANNUATION PLAN

The following brief description of the Workers' Compensation Board (WCB) Superannuation Plan (Plan) is provided for general information only. For more information, please contact the WCB Compensation and Benefits Department.

##### **a) General**

The Plan is open to all eligible employees of the Workers' Compensation Board (WCB).

##### **b) Roles and Responsibilities**

###### The Workers' Compensation Board (WCB)

The Workers' Compensation Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. WCB appoints Plan trustees. Currently there are two trustees, one representing WCB as the employer and one representing Plan members.

###### British Columbia Investment Management Corporation (bcIMC)

bcIMC provides investment management services as an agent of WCB.

###### British Columbia Pension Corporation (Pension Corporation)

The Pension Corporation provides benefit administration services as an agent of WCB.

##### **c) Contributions**

###### Basic Account

Members contribute to the Basic Account 4.5% of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable earnings (YMPE) (\$39,900 in 2003) and 6% of salaries above the YMPE, less amounts allocated to the Supplemental Benefits Account (See Notes 5 and 9). Prior to January 1, 2003, members contributed 2.25% of salaries up to and including the YMPE and 3% of salaries above the YMPE.

Employer contributions to the Basic Account match those for members, less amounts allocated to Supplemental Benefits Account (See Notes 5 and 9). Employer contributions were suspended from December 31, 2000 to December 31, 2002 because the March 31, 2000 actuarial valuation surplus exceeded the limit permitted by the *Income Tax Act* (Canada).

## Financial Statements

### WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

---

#### 1. DESCRIPTION OF THE WCB SUPERANNUATION PLAN (CONTINUED)

##### c) Contributions (continued)

###### Inflation Adjustment Account (IAA)

Members and WCB contribute 1.0% of salaries to the IAA.

##### d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65;
- at age 60, with at least 2 years contributory service; or
- at age 55 or older, with age plus years of service equalling 90 or more.

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings, up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years).

Pensionable earnings are based on the member's highest five-year average salary (HAS). The Plan also provides a bridge benefit with CPP which is payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of the YMPE or the HAS.

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the Plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Notes 6 and 7).

At January 1, 2004 retired members received a full CPI increase of 2.2% (2003: 2.3%).

### WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

---

#### 1. DESCRIPTION OF THE WCB SUPERANNUATION PLAN (CONTINUED)

##### e) Termination and Portability Benefits

A terminating member who is not eligible for a pension benefit may receive a refund of contributions with interest. A terminating member who is eligible, but has not yet reached the earliest age at which the member would be eligible to receive an immediate pension, may choose:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit (the minimum value is the members' contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements.

Where there are portability arrangements between the Plan and other plans, members may be able to transfer certain pension rights.

##### f) Other Benefits

Disability and survivor benefits are also available under the Plan. Supplemental benefits (Note 9) may also be funded from the Supplemental Benefits Account of the pension fund. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

##### g) Income Taxes

The Plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act* (Canada), except for supplemental benefits (Note 9), which are funded in addition to the RPP. The Plan is not subject to income taxes.

### **WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004**

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#### **2. SIGNIFICANT ACCOUNTING POLICIES**

##### **a) Basis of Presentation**

These financial statements present the Plan as a separate financial reporting entity, independent of the Plan's contributing employer and members. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the Plan. It does not purport to show whether these assets are adequate to meet all of the obligations of the Plan.

Certain figures have been reclassified to conform with the current year's presentation.

##### **b) Investments**

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Where available, fair values of these assets are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The fair value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

##### **c) Investment Income**

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder. The current period change in fair value includes realized and unrealized gains and losses.

Within the pools, dividends are accrued on the ex-dividend date. Income and expenses from derivative contracts are accrued as earned and included as income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair values.

## WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### d) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases of assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial surplus for the Basic Account.

### 3. INVESTMENTS (FAIR VALUE)

|                        | 2004             |                                    |                  | 2003             |
|------------------------|------------------|------------------------------------|------------------|------------------|
|                        | Basic<br>Account | Inflation<br>Adjustment<br>Account | Total            | Total            |
|                        | (\$ Thousands)   |                                    |                  |                  |
| Short-term             | \$ 8,615         | \$ 2,845                           | \$ 11,460        | \$ 7,923         |
| Canadian Bonds         | 182,821          | 44,178                             | 226,999          | 181,794          |
| Canadian Equities      | 111,657          | 27,638                             | 139,295          | 133,685          |
| U.S. Equities          | 69,337           | 16,116                             | 85,453           | 47,557           |
| International Equities | 77,874           | 18,699                             | 96,573           | 70,933           |
| Foreign Currency       | 962              | 240                                | 1,202            | 102              |
| Mortgages              | 21,546           | 5,206                              | 26,752           | 23,553           |
| Real Estate            | 51,383           | 12,276                             | 63,659           | 64,556           |
| Private Placements     | 12,462           | 1,332                              | 13,794           | 16,762           |
|                        | <u>\$536,657</u> | <u>\$128,530</u>                   | <u>\$665,187</u> | <u>\$546,865</u> |

Plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

### **WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004**

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#### **3. INVESTMENTS (FAIR VALUE) (CONTINUED)**

Short-term investments consist primarily of Canadian money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and in the case of international equities refer to investments in Europe, Australia and the Far East. The foreign currency pooled fund engages in the buying and selling of foreign currency financial instruments to enhance returns through the active management of currency exposure.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside the structure of public markets (Note 10).

The mortgages are secured by real estate and are valued using current market yields. The real estate is valued quarterly by bcIMC's external real estate investment managers and at least once every ten to eighteen months by accredited independent appraisers to establish current market values. Private placements are valued annually based on audited financial statements from private placement external managers.

The Plan also uses derivative contracts held indirectly through various pooled investment portfolios to enhance return, manage exposure to interest rate and foreign currency risk, and for asset mix management purposes. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates, or currency rates. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

## Financial Statements

### WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

#### 4. INVESTMENT INCOME

|                          | 2004              |                                     |          | 2003       |
|--------------------------|-------------------|-------------------------------------|----------|------------|
|                          | Income Allocation | Current Period Change In Fair Value | Total    | Total      |
|                          | (\$ Thousands)    |                                     |          |            |
| <b>Basic Account</b>     |                   |                                     |          |            |
| Short-term               | \$ 287            | \$ 11                               | \$ 298   | \$ 227     |
| Canadian Bonds           | 8,261             | 9,475                               | 17,736   | 13,548     |
| Canadian Equities        | 2,198             | 30,534                              | 32,732   | (26,086)   |
| U.S. Equities            | 5,729             | 7,956                               | 13,685   | (13,616)   |
| International Equities   | 1,778             | 20,792                              | 22,570   | (22,811)   |
| Foreign Currency         | 74                | 321                                 | 395      | 6          |
| Mortgages                | 1,424             | 452                                 | 1,876    | 1,572      |
| Real Estate              | 2,637             | 1,311                               | 3,948    | 3,004      |
| Private Placements       | 142               | (597)                               | (455)    | (1,021)    |
| Investment Income (Loss) | \$22,530          | \$70,255                            | \$92,785 | \$(45,177) |

|                                     | 2004              |                                     |           | 2003       |
|-------------------------------------|-------------------|-------------------------------------|-----------|------------|
|                                     | Income Allocation | Current Period Change In Fair Value | Total     | Total      |
|                                     | (\$ Thousands)    |                                     |           |            |
| <b>Inflation Adjustment Account</b> |                   |                                     |           |            |
| Short-term                          | \$ 78             | \$ 2                                | \$ 80     | \$ 30      |
| Canadian Bonds                      | 2,045             | 2,218                               | 4,263     | 4,998      |
| Canadian Equities                   | 550               | 7,476                               | 8,026     | (5,887)    |
| U.S. Equities                       | 1,417             | 1,867                               | 3,284     | (3,374)    |
| International Equities              | 441               | 5,174                               | 5,615     | (5,455)    |
| Foreign Currency                    | 19                | 91                                  | 110       | 1          |
| Mortgages                           | 340               | 108                                 | 448       | 366        |
| Real Estate                         | 623               | 309                                 | 932       | 693        |
| Private Placements                  | -                 | (38)                                | (38)      | (7)        |
| Investment Income (Loss)            | 5,513             | 17,207                              | 22,720    | (8,635)    |
| Total Investment Income (Loss)      | \$28,043          | \$87,462                            | \$115,505 | \$(53,812) |

The income allocation portion of investment income represents pooled investment portfolio income attributable to the Plan, as a unitholder, and as calculated by bcIMC, and interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

## Financial Statements

### WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

#### 5. CONTRIBUTIONS

|                                 | 2004            |                              |                               | 2003            |                 |
|---------------------------------|-----------------|------------------------------|-------------------------------|-----------------|-----------------|
|                                 | Basic Account   | Inflation Adjustment Account | Supplemental Benefits Account | Total           | Total           |
|                                 | (\$ Thousands)  |                              |                               |                 |                 |
| <b>Members' contributions</b>   |                 |                              |                               |                 |                 |
| Regular                         | \$ 7,906        | \$ 1,579                     | \$ 4                          | \$ 9,489        | \$ 6,446        |
| Arrears                         | 20              | -                            | -                             | 20              | 64              |
| Purchase of service             | -               | -                            | -                             | -               | 1               |
| Leave of absence                | 85              | 26                           | -                             | 111             | 175             |
| Reinstatement                   | -               | -                            | -                             | -               | 323             |
|                                 | 8,011           | 1,605                        | 4                             | 9,620           | 7,009           |
| <b>Employer's contributions</b> |                 |                              |                               |                 |                 |
| Regular                         | 7,852           | 1,579                        | 58                            | 9,489           | 3,259           |
| Arrears                         | 20              | 1                            | -                             | 21              | 66              |
| Purchase of service             | -               | -                            | -                             | -               | 2               |
| Leave of absence                | 91              | 24                           | -                             | 115             | 200             |
|                                 | 7,963           | 1,604                        | 58                            | 9,625           | 3,527           |
| <b>Total Contributions</b>      | <b>\$15,974</b> | <b>\$3,209</b>               | <b>\$ 62</b>                  | <b>\$19,245</b> | <b>\$10,536</b> |

Member and employer contributions are as defined under the Plan rules.

Employer regular Basic Account contributions were \$7,910 thousand, of which \$58 thousand was allocated to the Supplemental Benefits Account to fund supplemental benefits. Member regular Basic Account contributions were \$7,910 thousand, of which \$4 thousand was allocated to the Supplemental Benefits Account to fund supplemental benefits.

#### 6. ACCOUNT TRANSFERS

|                                               | 2004           |                              | 2003            |                              |
|-----------------------------------------------|----------------|------------------------------|-----------------|------------------------------|
|                                               | Basic Account  | Inflation Adjustment Account | Basic Account   | Inflation Adjustment Account |
|                                               | (\$ Thousands) |                              |                 |                              |
| Present value of current indexing supplements | \$2,877        | \$(2,877)                    | \$ 2,555        | \$(2,555)                    |
| Indexing of deferred pensions                 | 149            | (149)                        | 182             | (182)                        |
| Excess interest                               | -              | -                            | -               | -                            |
|                                               | <b>\$3,026</b> | <b>\$(3,026)</b>             | <b>\$ 2,737</b> | <b>\$(2,737)</b>             |

### **WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004**

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#### **6. ACCOUNT TRANSFERS (CONTINUED)**

The Inflation Adjustment Account (IAA) is a separate account that is maintained to fund current and future indexing supplements. The IAA is funded through a portion of ongoing contributions from employers and members (please see Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when retired members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is transferred from the IAA to the Basic Account.

There was no excess interest transfer to the IAA for the year ended March 31, 2003 and 2004. Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid (approximately \$139.3 million of assets for 2004, 2003: \$118.7 million). The excess interest rate of return is determined by taking the difference between the actual five-year average market rate of return and the rate of return used by the actuary (6.5%) in valuing the Plan's liabilities. The calculated excess interest rate of return for 2004 was -1.0% (2003: -4.8%), resulting in a negative excess interest amount of \$1.4 million (2003: \$5.7 million). The cumulative negative excess interest amount is \$7.1 million which will be offset against future positive excess interest amounts.

#### **7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT**

An actuarial valuation is performed at least every three years by an independent actuary. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan.

The Basic Account is the account from which the defined basic benefits of the Plan are paid and from which any indexing that has been granted to retired members is also paid. Future indexing benefits are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits. As indexing is granted, the Basic Account receives from the IAA the necessary net present value funding for the granted indexing. Therefore, accrued basic pension benefits, for valuation purposes, include the liability for all indexing granted to the date of the valuation, but not, as yet unknown, future indexing.

**WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2004**

**7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT (CONTINUED)**

The latest full actuarial valuation was made as at March 31, 2003, by Eckler Partners Ltd., the results were as follows:

| As at March 31                              | 2003          | 2000   |
|---------------------------------------------|---------------|--------|
|                                             | (\$ Millions) |        |
| Net assets available for benefits           | \$ 442        | \$ 500 |
| Five year market value smoothing adjustment | 77            | (69)   |
| Net actuarial assets for benefits           | 519           | 431    |
| Liability for accrued benefits              | (436)         | (324)  |
| Surplus                                     | \$ 83         | \$ 107 |

The main changes between the 2000 and 2003 valuation are as follows:

|                                                         |               |
|---------------------------------------------------------|---------------|
|                                                         | (\$ Millions) |
| Surplus as at March 31, 2000                            | \$ 107        |
| Investment income in excess of actuarial rate of return | 5             |
| Salary increase less than previously assumed            | 18            |
| Interest on surplus                                     | 24            |
| Changes in actuarial assumptions                        | (20)          |
| Actual contributions less than normal cost rate         | (46)          |
| Other actual experience items different from expected   | (3)           |
| Surplus as at March 31, 2003                            | \$ 83         |

The next full actuarial valuation will be as at March 31, 2006 for inclusion in the March 31, 2007 financial statements.

As a result of this valuation, the actuary's calculated level contribution rate for basic pension benefits was 8.98% of employer payroll for salaries above the YMPE.

The present value of liabilities for pension benefits accrued to the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. Actuarial liabilities and net assets reflect the following long-term actuarial assumptions:

- Annual investment return 6.5%
- Annual salary escalation rate 3.5%

**WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2004**

**7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT (CONTINUED)**

For accounting purposes, an extrapolation on an accrued benefit basis is required to the end of the year. This has been done to March 31, 2004 using the same long term actuarial assumptions as above.

On that basis, the extrapolated value of the surplus at March 31, 2004 is as follows:

| <b>Extrapolated Actuarial Assets Available for Basic Pension Benefits</b> | <b>2004</b>          | <b>2003</b> |
|---------------------------------------------------------------------------|----------------------|-------------|
|                                                                           | <i>(\$ Millions)</i> |             |
| Extrapolated Actuarial assets, beginning of year                          | \$ 516               | \$ 484      |
| March 31, 2003 valuation adjustment                                       | 3                    | -           |
| Actuarial assets - March 31, 2003 valuation results                       | \$ 519               | \$ 484      |
| Account transfers                                                         | 3                    | 3           |
| Current year contributions                                                | 16                   | 7           |
| Net transfers to (from) other plans                                       | 2                    | 3           |
| Pension, termination & refund benefits                                    | (17)                 | (15)        |
| Interest accrued on assets                                                | 34                   | 34          |
| Extrapolated Actuarial assets, end of year                                | \$ 557               | \$ 516      |
| <b>Extrapolated Actuarial Liability for Accrued Basic Benefits</b>        |                      |             |
|                                                                           | <i>(\$ Millions)</i> |             |
| Extrapolated liability for accrued basic benefits, beginning of year      | \$ 430               | \$ 391      |
| March 31, 2003 valuation adjustment                                       | 6                    | -           |
| Liability for accrued basic benefits March 31, 2003 valuation results     | \$ 436               | \$ 391      |
| Account transfers                                                         | 3                    | 3           |
| Current period benefit cost                                               | 21                   | 20          |
| Net transfers to (from) other plans                                       | 2                    | 3           |
| Pension, termination & refund benefits                                    | (17)                 | (15)        |
| Interest on accrued liability                                             | 29                   | 28          |
| Extrapolated liability for accrued basic benefits, end of year            | \$ 474               | \$ 430      |
| Extrapolated Actuarial Surplus March 31, 2004                             | \$ 83                | \$ 86       |

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increase, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

## Financial Statements

### WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004

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#### 8. INVESTMENT AND ADMINISTRATION COSTS

|                             | 2004           | 2003           |
|-----------------------------|----------------|----------------|
|                             | (\$ Thousands) |                |
| Investment Management       | \$ 970         | \$ 876         |
| Benefit Administration      | 299            | 262            |
| Other Professional Services | 175            | 38             |
|                             | <u>\$1,444</u> | <u>\$1,176</u> |

bcIMC is a related party to the Plan as WCB is represented on bcIMC's Corporate Board.

Costs for investment management services charged by bcIMC include the costs for internal and external investment management fees. These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Benefit administration costs represent amounts charged by the Pension Corporation for benefit administration services.

Other professional services include actuarial and audit fees.

Separate from the Plan, the Workers' Compensation Board pays directly for the medical plan and extended health care premiums for retired members and their dependents. For the year ended March 31, 2004 this amounted to \$1,239,526 (2003: \$859,178).

#### 9. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed *Income Tax Act* (Canada) limits for registered pension plans are paid through this account.

#### 10. COMMITMENTS

The Plan participates in private placement pools managed by bcIMC. These pools consist primarily of investments in limited partnerships.

As at March 31, 2004, the Plan's share of commitments (over the next several years) for future investment in these pools is approximately \$15.6 million (2003 - \$7.2 million).

### **WORKERS' COMPENSATION BOARD SUPERANNUATION PLAN NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2004**

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#### **11. FINANCIAL INSTRUMENTS**

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. The fair values of these financial instrument approximate their carrying values.

Fair values of investments are exposed to price risk and credit risk. Price risk is comprised of currency risk, interest rate risk, and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

##### Interest Rate Risk

The value of the Plan's assets is affected by changes in interest rates and their effect on capital markets. Pension liabilities are exposed to long-term market interest rates.

##### Foreign Currency Risk

Foreign currency exposure arises from the Plan's holdings of foreign-currency denominated investments and related derivative contracts. Foreign currency forward contracts are used to manage a portion of the currency exposure. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate.

##### Market Risk

The most important issue for the Plan is long-term investment results. The Board approves the long-term asset mix policy for investment assets and oversees the management of these assets through the Board's investment management agent, bcIMC. Investment risk is reduced through asset class diversification, diversification within each asset class and credit quality constraints on fixed income instruments.

##### Credit Risk

The Plan limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.



This publication is produced by the  
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WORKERS' COMPENSATION BOARD OF BC